

G-010/CI-92-1147 ORDER ACCEPTING REPORT AND CLOSING DOCKET

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm
Tom Burton
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Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of an
Investigation into the Gas
Purchasing Practices of Midwest
Gas, a Division of Midwest Power
Systems

ISSUE DATE: January 25, 1994

DOCKET NO. G-010/CI-92-1147

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PROCEDURAL HISTORY

On October 2, 1992 the Commission issued its ORDER INITIATING INVESTIGATION in the above-entitled matter. In that Order the Commission found that Midwest Gas's purchased gas costs were higher than those of most other gas utilities and substantially above the average for Minnesota gas utilities. The Commission opened an investigation into the Company's gas purchasing practices, beginning with a report and recommendation from the Department of Public Service (the Department).

The Department filed its report on September 17, 1993. The report concluded that the Company's purchasing practices, while prudent, were overly cautious and would merit careful monitoring if the Company were still operating in the state. (Midwest Gas transferred all its Minnesota facilities and customers to Minnegasco in a property exchange transaction approved by the Commission in July of 1993.)¹ The Department recommended closing the investigation. Finally, the Department recommended opening an industry-wide proceeding to consider establishing financial incentives for cost-effective gas purchasing practices.

The Company filed comments defending its gas purchasing strategy during the time at issue and concurring in the Department's recommendation to close the investigation.

¹ In the Matter of the Joint Petition of Minnegasco, a Division of Arkla, Inc., and Midwest Gas, a Division of Midwest Power Systems, Inc., for Authority to Exchange Assets, Utility Operations and Business, Docket No. G-008, 010/PA-93-92, ORDER APPROVING EXCHANGE AND REQUIRING FILINGS (July 29, 1993).

The Residential Utilities Division of the Office of the Attorney General (RUD-OAG) pointed out that in its next rate case Minnegasco intends to seek an acquisition adjustment based on gas cost savings resulting from its acquisition of Midwest Gas's Minnesota facilities. The RUD-OAG cautioned the Commission to avoid prejudging acquisition adjustment issues in this docket. The agency also expressed strong reservations about financial incentives for cost-effective gas purchasing practices.

Minnegasco supported the Department's recommendations to close this investigation and to open an investigation into gas purchasing financial incentives.

Northern Natural Gas Company, the interstate pipeline from which Midwest Gas purchased most of its gas supplies during the time at issue, emphasized that its supplies had been extremely reliable and that Midwest Gas's customer configuration made reliability extremely important.

The matter came before the Commission on January 13, 1994.

FINDINGS AND CONCLUSIONS

Having examined the entire record and having heard the arguments of the parties, the Commission accepts the Department's report, finds the Company's purchasing practices were not imprudent, and closes this investigation.

The Commission agrees with the Department that, while the Company's purchasing practices may have been more cautious than was necessary, they did not rise to the level of imprudence. If the Company were still operating in Minnesota, the Commission would probably establish a program to monitor its gas purchasing practices on an ongoing basis. Since the Company has ceased doing business in the state, there is no need to do so.

The finding of prudence in this case, however, should not obscure the Commission's commitment to cost-effective gas purchasing practices and its insistence on strong management performance in this area. Key conditions which led to the finding of prudence here -- lack of experience with competitive gas markets and instability in the third-party market -- no longer exist. Minnesota gas utilities must develop gas purchasing strategies in light of present conditions and market realities and be prepared to demonstrate the reasonableness and prudence of those strategies to the Commission. Today's decision signals no retreat from careful scrutiny of Minnesota utilities' gas purchasing practices.

Finally, the Commission will defer examination of the Department's recommendation on financial incentives to the industry-wide proceeding in which the Commission will consider adopting federal standards on integrated resource planning for gas utilities.² Integrated resource planning and financial incentives are intended to achieve the same goal -- minimization of total energy costs -- and should be considered together.

ORDER

1. The September 17, 1993 report of the Department of Public Service is accepted.
2. The Commission investigation into the gas purchasing practices of Midwest Gas is closed.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)

² In the Matter of an Investigation into Standards Regarding the Encouragement of Investments in Conservation and Energy Efficiency by Gas Utilities under Section 115 of the Energy Policy Act of 1992, Docket No. G-999/CI-93-895.